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### 1995 Feature Article - A Framework for Household Income Consumption Saving and Wealth

This article provides an overview of the conceptual framework for statistics on household income, consumption, saving and wealth (ICW), recently published by the ABS. Detailed information can be found in A Provisional Framework for Household Income, Consumption, Saving and Wealth (cat. no. 6549.0).

Since the 1980s social policy makers and analysts have increasingly recognised that the traditional measures of cash income and household expenditure are not adequate proxies for a household's economic well-being. More comprehensive measures of economic well-being require the use of broader concepts of income, consumption and other household resources.

The ICW framework was developed to address this need by providing a consistent and integrated map of all economic resources available to households. The framework sets out the concepts, definitions and classifications needed when attempting to formulate a measure of economic well-being. It is primarily designed to be applied to data on individual households (micro data) but is also consistent with concepts and definitions used in the national accounts (macro data).

The development of the ICW framework will provide a number of benefits to the ABS and its clients. It will allow the ABS to plan the future development of statistics of household income and expenditure within a model that describes all household economic resources and disbursements on a conceptually consistent basis. In doing this, it will also assist the development of collection and imputation techniques for some of the data not currently available.

The framework will also allow policy makers and other ABS clients to place the important, but limited, data available from current ABS collections into the context of the full picture of a household's overall economic resources. It will also assist the ABS and its clients to assess and express the priorities they set on these future developments of household statistics.

The framework also identifies the linkages between macro and micro income, consumption and wealth data. This is a prerequisite for the development of social accounts for Australia. Such accounts provide a comprehensive description of household income and outlays of various population sub-groups, by linking micro data such as household survey results, and macro data such as from the national accounts.

### Economic well-being

A major objective of the ICW framework is to establish a conceptual basis for measuring the level of, and changes in, the economic well-being of households of different types and at different stages of their life cycle. Economic well-being is addressed from two perspectives:

- a household's power or command over economic resources; and
- the extent to which a household is able to both consume and accumulate wealth.

Figure 1. provides an overview of the conceptual model underlying the ICW framework and shows the major flows which affect a household's economic well-being.

## Command over economic resources

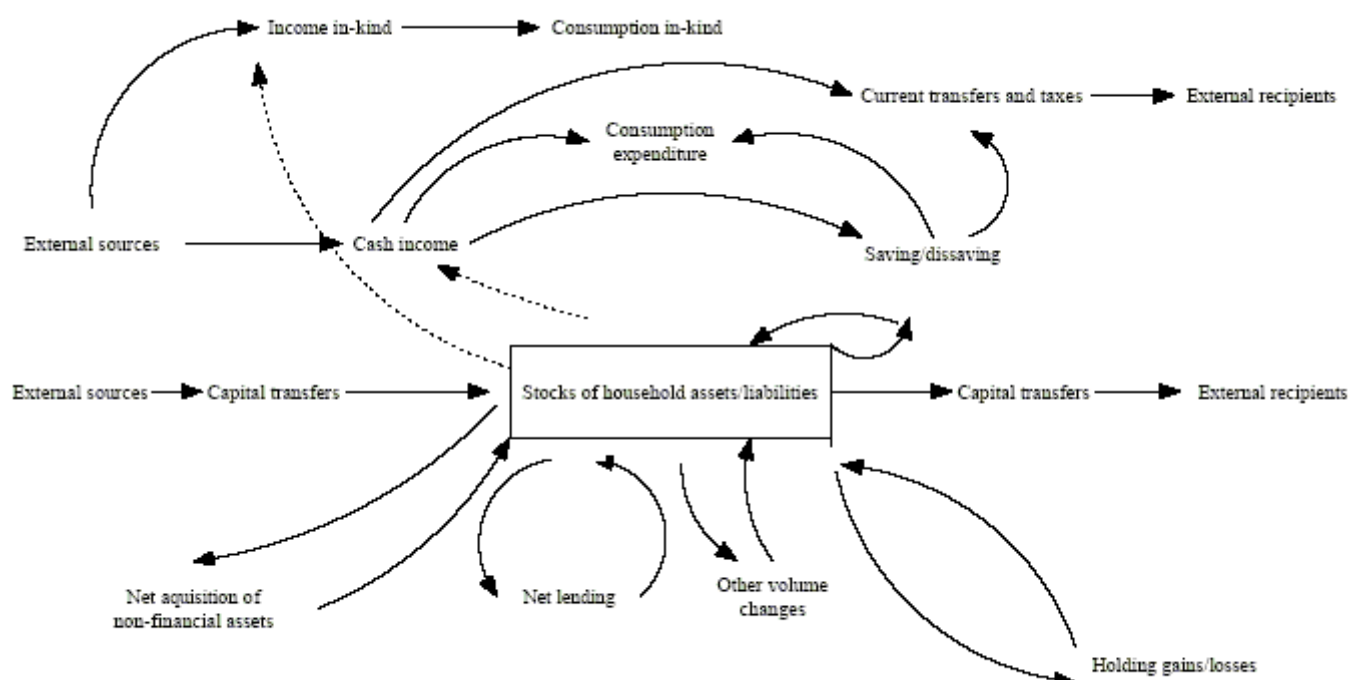
In developing the framework, the ABS has extended the scope of household economic resources beyond those usually treated in national accounting statistics and in international guidelines.

In particular, the common emphasis on the household as a consumption unit has been counter balanced, giving equal weight to the household's role as a unit of production. In the ICW framework the household is seen as not only receiving income (in cash and in-kind) from outside, but also as a unit that produces goods and services for its own consumption without any intervention from the market place. The household provides these goods and services for itself through the use of its assets (including the family home) and through the services provided by unpaid household work.

## Income

In the model adopted for the ICW framework, a clear distinction is drawn between regular and recurring receipts that are classed as income and larger lump-sum receipts that are classed as capital transfers. Limiting the definition of income to regular and recurring receipts is designed to restrict income to reflect the resources that most households depend on for their day-to-day living. For most households it is these ongoing receipts (and the expectation of their continuance) that is the main predictor of the household consumption.

**Figure 1 HOUSEHOLD ECONOMIC RESOURCES - MAJOR FLOWS**



Income may be received as cash or in-kind, as a result of interaction with the market economy or from non-market sources. The ICW framework classifies income into four major groups according to source:

- primary income which comprises, both cash and in-kind, remuneration of employees and

- entrepreneurial income from unincorporated enterprises owned by households;
- property income such as interest, rent, dividends and royalties, including non-cash receipts such as dividends received as shares;
- transfer income from non-market sources, comprising government cash pensions, benefits and allowances, indirect government benefits (such as health and education services), and cash and other gifts from charitable institutions and other households; and
- other non-market income, which is income in-kind in the form of services provided within the household through unpaid household work (such as child care and cooking), and services provided by household assets such as the family home, car, and other household durables.

## Other household resources

Households may have resources other than income that affect their economic well-being. These include capital transfers received from time to time from other households (e.g. a large gift or inheritance) or from other private organisations (e.g. lump sum termination payments for employees). In addition, there is potential for running down some of this stock of wealth to increase, or maintain current levels of, household consumption.

## Consumption

The concept of consumption is based on the 'using up' of goods and services. Consumption includes:

- the purchase of non-durable goods and services;
- consumption of goods and services received in-kind from government, other households and private organisations;
- the using up of goods and services provided from within the household (e.g. from unpaid household work or use of household assets such as car or family home), and
- the transfer of economic resources from one household to other households and private institutions such as charities. The transfers may be compulsory (such as some child support payments) or voluntary (such as gifts of money or goods).

This concept of consumption is therefore much broader than one which is based solely on the current consumption expenditure of the household in the market place.

## Saving

Saving is that part of current income (after direct taxes) that is not directly used up or transferred as part of household current consumption; it may be either positive or negative in any reference period. Saving is therefore, a derived item, the derivation of which depends on a knowledge of income, consumption and taxes.

The ICW framework provides a model from which measures of saving for individual households can be derived (See Table 1). Currently, such a measure of saving is not derivable from the ABS's household income and expenditure surveys.

**TABLE 1. ICW CURRENT AND CAPITAL ACCOUNTS**

1.1. Current Account Disbursements	Receipts
	1. Primary income 2. Property income 3. Transfer income

	4. Other non-market income
	5. Total household income
5. Total household income	
6. Direct taxes, fees and fines	
7. Net disposable income	
	7. Net disposable income
8. Consumption	
9. Saving	

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## 1.2 Capital Account

### Disbursements

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### Receipts

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	9. Saving
	10. Saving
	11. Net capital transfers received
12. Net acquisition of non-financial assets	
13. Net lending	

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## Wealth

The wealth or net worth of a household is defined as the difference between the household's stock of assets and its stock of liabilities at a particular point in time. The concept of assets covers both financial and non-financial assets, including all consumer durables owned by the household. The concept of liabilities covers all debts owed by the household whether they be to other households, private institutions, government or non-residents.

Household wealth plays an important role in the measurement of household economic well-being. Apart from providing regular receipts to the household in the form of interest, dividends, etc. the wealth also generates flows of capital gains (or losses) (See Table 2). In addition, wealth provides households with some additional economic power because it allows for running down of the stock of assets to increase, or maintain, levels of household consumption.

**TABLE 2. ICW OTHER CHANGES IN STOCKS ACCOUNT**

Changes in assets	Changes in liabilities
Other changes in volume:	Other changes in volume:
14. Non-financial assets	
15. Financial assets	16. Liabilities
Nominal holding gains/losses:	Nominal holding gains/losses:
17. Non-financial assets	
18. Financial assets	18. Liabilities

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The additional economic power provided by household wealth is addressed by including a measure which transforms the value of assets into a national income stream. It is calculated as a wealth annuity which describes the potential to run down the household's assets over the expected lifetime of its members. All wealth, whether held as financial or non-financial assets, is converted to an annuity.

The change in a household's net worth over time is also considered in the ICW framework to be an important indicator of economic well-being. If net worth is increasing then the household must either have been able to save from its income or to access other economic resources (such as an inheritance, or capital gain). Such a household may be better off than a household with a similar level of consumption that has financed its consumption by running down assets or incurring a liability.

## Summary measures of economic well-being

The ICW framework presents a summary measure of economic well-being of households by combining the flows (and notional flows) of economic resources discussed above.

This summary measure may be viewed either from the perspective of the household's disbursements, or from the perspective of its receipts.

Briefly, economic well-being is described from the disbursements point of view as:

economic well-being = consumption + change in net worth + notional wealth annuity.

From the receipts point of view, economic well-being is described as:

economic well-being = net disposable income - saving + change in net worth + notional wealth annuity

## **Related frameworks**

In developing the ICW, the ABS has drawn on related ABS standards and on frameworks published by several international organisations. The international standards used include the Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households (UN 1977), the System of National Accounts 1993 and various recommendations published by the International Labour Organisation since the early 1970s.

Where appropriate, the concepts and terminology used in the ICW framework are consistent with those used in the national accounts. A detailed comparison of components of the ICW framework and components of the Australian National Accounts and the System of National Accounts (SNA93) is contained in the publication.

The ICW framework will be periodically revised to reflect continuing changes in international guidelines relating to such areas as household income and expenditure statistics, national accounts and statistics of labour income. They will also reflect ongoing discussion within the ABS and with the user community.

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